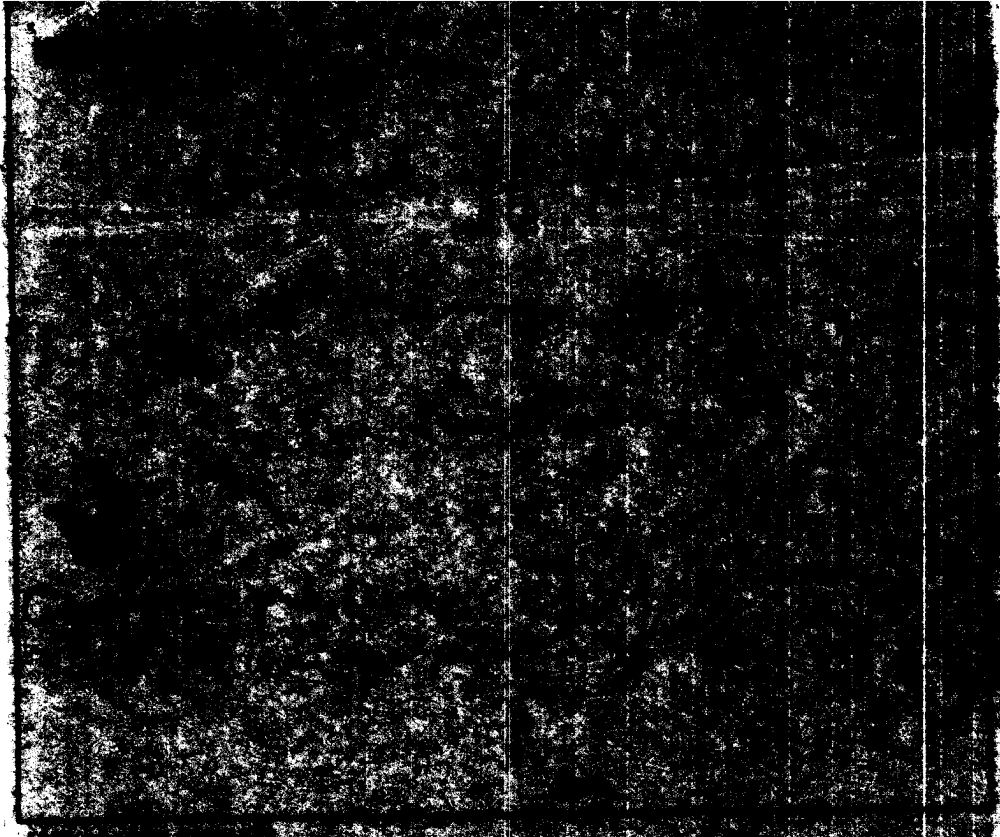


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Central Intelligence Agency

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Washington, D.C. 20505

Mr. James M. Frey
 Assistant Director for Legislative Reference
 Office of Management and Budget
 Washington, D.C. 20503

Dear Mr. Frey:

This is in response to your request for the Agency's views on the Office of Personnel Management's (OPM) draft "Federal Employees Retirement System Act of 1985", which sets forth the proposed new retirement system for those federal employees (hired after 31 December 1983) who are covered by Social Security. We believe that OPM's proposed supplemental retirement system is wholly inadequate to meet the Agency's needs and would have a serious detrimental effect on the Agency's ability to effectively undertake and fulfill its mission. This proposed supplemental plan is inadequate, in our view, because of the vast disparity in retirement benefits and eligibility ages that would be established depending on the fortuity of whether an Agency employee was hired before or after 31 December 1983. For the reasons set forth below, we strongly oppose the introduction of this proposed legislation.

At the outset, we note that the draft OPM proposal does not include CIARDS participants among those individuals who are eligible for early retirement. Based on earlier discussions between this Agency and OMB, we understand that CIARDS ~~participants~~ will be included among those ~~groups~~ permitted early retirement and that Agency Civil Service Retirement System (CSRS) participants are currently being considered for inclusion (at age 55) in this same group. Mr. Casey's two letters of 11 and 18 March 1985 on this subject persuasively address the Agency's personnel structure and how the effectuation of its mission requires continuation of the present CIARDS and Civil Service programs for CIA employees. As Mr. Casey states in his 18 March letter, this concern that existing retirement benefits remain intact for Agency employees extends beyond Administration proposals addressing retirement reform and includes the supplemental retirement plan currently under consideration here. For the reasons stated in Mr. Casey's letters, the Agency cannot effectively operate with one group of employees who will retire at age 50 and another group which does not become eligible for full retirement benefits until age 62.

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Of equal concern to the Agency is the disparity in benefits that would be provided individuals under existing CIARDS or CSRS programs and those afforded participants under this OPM supplemental plan. One of the principal inadequacies of the OPM proposal is, in fact, its failure to provide any comparative data or analysis to estimate what annuity levels or actual benefits would be provided under the plan to qualifying individuals once they reach retirement age at 59 1/2. The difficulties in estimating benefits under this supplemental plan are even further compounded by the fact that the proposed plan is a defined contribution rather than a defined benefit plan. Our own preliminary estimates indicate a large variance in the level of benefits provided under this defined contribution plan and those currently available under CIARDS or CSRS. Our projections indicate that the proposed defined contribution plan would fail to provide even half of the benefits currently available under either CIARDS or CSRS.

✓ This large disparity between benefits provided under the proposed defined contribution plan and current retirement programs is apparently intended to be offset by the voluntary Federal IRA feature of the supplemental plan. We believe this reliance on the Federal IRA as a means to compensate for the otherwise low annuities provided by the defined contribution plan is misplaced. First, this IRA feature is based on the unrealistic presumption that government employees will have \$7,000 ^(for per year disposable income available) of disposable income a year to invest in an IRA. The Agency's own experience with a voluntary investment program of this type indicates that the average government employee will be highly unlikely to take advantage of this IRA proposal through the investment of such substantial sums. The Agency's own Voluntary Investment Program is comprised typically of individuals in GS-12 slots or above, the vast majority of which are 40 years or older, and whose average deposit in such an account is less than \$1,000 per year. Dependence on this voluntary IRA will not, in our view, result in providing most government employees with a living annuity when combined with the completely inadequate defined contribution benefits set forth in the supplemental plan. Moreover, the morale and administrative problems that would be generated in having some Agency employees eligible to retire at age 50 with more than twice the benefits that other Agency employees would be entitled to receive while having to work to age 62 (to receive full benefits) would be devastating to the performance of the Agency's mission. The adverse effects of such a bifurcated retirement system on the Agency's operation are fully described in Mr. Casey's letter of 18 March.

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The Agency is also concerned about the high portability feature of the proposed plan. For the reasons outlined by Mr. Casey in his earlier correspondence, the inherent security risks associated with encouraging a short-term transient work force make such portability highly undesirable from the Agency's standpoint.

We also believe that the significantly reduced survivor benefits provided by the OPM proposal would be inadequate to meet the Agency's needs. Survivor benefits are of considerable importance to Agency employees given their frequent service in hazardous areas involving the risk of terrorist attack. The willingness of Agency employees to undergo such risks would be significantly reduced if this considerable reduction in survivor benefits is permitted.

In light of the above, we continue to believe, as stated by Mr. Casey in his earlier letter, that the mission of the CIA requires both the continuation of age 50 (CIARDS) or age 55 (Civil Service) eligibility for full retirement benefits, and that Agency employees hired after 1 January 1984 ~~will~~ *have* retirement benefits comparable to those provided individuals beside whom they work on a daily basis. Because the OPM proposal fails to adequately address either of these two basic concerns, we must strongly oppose its submission to Congress as the Administration's proposal for a supplemental retirement program.

Sincerely,

Charles A. Briggs
Director, Office of Legislative Liaison

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